

Cameron Memorial Community Hospital, Inc.

September 30, 2007 and 2006

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Independent Accountants' Report

Board of Directors
Cameron Memorial Community Hospital, Inc.
Angola, Indiana

We have audited the accompanying balance sheets of Cameron Memorial Community Hospital, Inc. (Hospital) as of September 30, 2007 and 2006, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cameron Memorial Community Hospital, Inc. as of September 30, 2007 and 2006, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

January 17, 2008

Cameron Memorial Community Hospital, Inc.

Statements of Operations Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Unrestricted Revenue, Gains and Other Support		
Net patient service revenue	\$ 34,818,201	\$ 31,609,630
Grant income	—	127,149
Other	1,618,907	1,582,378
Net assets released from restrictions used for operations	<u>55,619</u>	<u>54,677</u>
Total unrestricted revenue, gains and other support	<u>36,492,727</u>	<u>33,373,834</u>
Expenses		
Salaries and wages	12,536,718	11,889,767
Payroll taxes and employee benefits	4,824,458	4,408,228
Purchased services and professional fees	5,689,889	4,670,259
Supplies	3,593,887	3,313,184
Repairs and maintenance	904,235	785,404
Utilities	619,805	584,866
Equipment rent	469,263	436,584
Insurance	359,625	369,803
Interest	697,389	515,368
Depreciation and amortization	2,326,807	1,765,240
Provision for uncollectible accounts	3,190,350	2,849,995
Other	<u>970,966</u>	<u>901,550</u>
Total expenses	<u>36,183,392</u>	<u>32,490,248</u>
Operating Income	<u>309,335</u>	<u>883,586</u>
Other Income		
Investment return, interest and dividends	543,908	373,264
Realized gain	1,634,131	150,249
Contribution income	<u>34,879</u>	<u>45,263</u>
Total other income	<u>2,212,918</u>	<u>568,776</u>
Excess of Revenue Over Expenses	2,522,253	1,452,362
Investment return, change in unrealized gains on other than trading securities	(184,728)	542,317
Change in fair value of interest rate swap agreement	<u>4,975</u>	<u>41,163</u>
Increase in Unrestricted Net Assets	<u>\$ 2,342,500</u>	<u>\$ 2,035,842</u>

Cameron Memorial Community Hospital, Inc.

Statements of Changes in Net Assets Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Unrestricted Net Assets		
Excess of revenue over expenses	\$ 2,522,253	\$ 1,452,362
Investment return, change in unrealized gains (losses) on other than trading securities	(184,728)	542,317
Change in fair value of interest rate swap agreement	<u>4,975</u>	<u>41,163</u>
Increase in unrestricted net assets	<u>2,342,500</u>	<u>2,035,842</u>
Temporarily Restricted Net Assets		
Contributions received	8,866	7,035
Investment return	4,768	3,771
Net assets released from restriction	<u>(55,619)</u>	<u>(54,677)</u>
Decrease in temporarily restricted net assets	<u>(41,985)</u>	<u>(43,871)</u>
Increase in Net Assets	2,300,515	1,991,971
Net Assets, Beginning of Year	<u>23,782,382</u>	<u>21,790,411</u>
Net Assets, End of Year	<u>\$ 26,082,897</u>	<u>\$ 23,782,382</u>

Cameron Memorial Community Hospital, Inc.

Statements of Cash Flows Years Ended September 30, 2007 and 2006

	2007	2006
Operating Activities		
Increase in net assets	\$ 2,300,515	\$ 1,991,971
Items not requiring (providing) cash		
Depreciation and amortization	2,326,807	1,765,240
Unrealized and realized gains on sale of investments	(1,449,403)	(692,566)
Change in fair value of interest rate swap agreement	(4,975)	(41,163)
Changes in		
Patient accounts receivable, net	(208,308)	(222,861)
Other receivables	51,475	(15,656)
Other current assets	(150,980)	75,312
Accounts payable	200,046	668
Estimated amounts due to third-party payers	760,169	(500,000)
Other current liabilities	<u>65,562</u>	<u>27,731</u>
Net cash provided by operating activities	<u>3,890,908</u>	<u>2,388,676</u>
Investing Activities		
Proceeds from disposition of investments and assets limited as to use	13,981,902	4,409,152
Purchase of investments and assets limited as to use	(15,719,526)	(5,662,830)
Proceeds from disposition of property and equipment	2,601	—
Purchase of property and equipment	<u>(921,962)</u>	<u>(1,294,852)</u>
Net cash used in investing activities	<u>(2,656,985)</u>	<u>(2,548,530)</u>
Financing Activities		
Principal payments on long-term debt	(311,669)	(300,136)
Principal payments on capital lease obligations	<u>(513,367)</u>	<u>(267,045)</u>
Net cash used in financing activities	<u>(825,036)</u>	<u>(567,181)</u>
Increase (Decrease) in Cash and Cash Equivalents	408,887	(727,035)
Cash and Cash Equivalents, Beginning of Year	<u>1,270,688</u>	<u>1,997,723</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,679,575</u>	<u>\$ 1,270,688</u>
Supplemental Cash Flows Information		
Interest paid	\$ 696,617	\$ 517,009
Property and equipment in accounts payable	7,129	262,466
Capital lease obligation incurred for property and equipment	1,450,000	2,731,559

Cameron Memorial Community Hospital, Inc.

Notes to Financial Statements September 30, 2007 and 2006

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Cameron Memorial Community Hospital, Inc. (Hospital), a not-for-profit organization, is a general acute care facility in Angola, Indiana with 61 licensed beds and associated ancillary service departments including outpatient services and home health care. The Hospital also operates an assisted living facility and urgent care center in Angola, Indiana.

The Hospital provides health care services primarily in the northeast portion of Indiana. Expenses relate to the provision of medical care and related general and administrative costs.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At September 30, 2007 and 2006, cash equivalents consisted primarily of a money market account. At September 30, 2007, the Hospital's cash accounts exceeded federally insured limits by approximately \$2,100,000.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Hospital bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. The investment in equity investee is reported on the equity method of accounting. Investment return includes dividend, interest and other investment income, and realized and unrealized gains and losses on investments carried at fair value. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of operations and changes in net assets as unrestricted or temporarily restricted based upon the existence and nature of any donor or legally imposed restrictions.

Cameron Memorial Community Hospital, Inc.

Notes to Financial Statements

September 30, 2007 and 2006

Assets Limited as to Use

Assets limited as to use include (1) assets restricted by donors and (2) assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital are included in current assets.

Inventory

Supply inventories are stated at the lower of cost, determined using the first-in, first-out (FIFO) method, or market.

Property and Equipment

Property and equipment other than that received by donation are reported at cost and depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Goodwill

Goodwill represents the Hospital's excess cost of the net assets purchased for the urgent care facility over the fair value of the net assets at the date of acquisition. Amortization is computed using the straight-line method over ten years. Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangibles*, changes the way certain entities account for goodwill, but does not apply to this purchase transaction.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose.

Patient Accounts Receivable Financing

Under a credit financing agreement, qualified self-pay patients can receive interest-bearing loans from an independent financial institution to pay their receivable balances to the Hospital. The transfer of these receivables is with full recourse to the Hospital. At September 30, 2007 and 2006, these receivables totaled \$289,828 and \$287,844, respectively. The Hospital has made provision for accounts estimated to be uncollectible in the allowance for uncollectible accounts under these agreements.

Cameron Memorial Community Hospital, Inc.

Notes to Financial Statements September 30, 2007 and 2006

Excess of Revenue Over Expenses

The statements of operations include excess of revenue over expenses. Changes in unrestricted net assets which are excluded from the excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, the change in value of an interest rate swap agreement and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and revised in future periods as adjustment become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Contributions

Unconditional promises to give cash and other assets are accrued at estimated fair values at the date each promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Receipt of contributions which are conditional are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Self-Insured Employee Health Claims

The Hospital is self-insured for its exposure to risk of loss from employee health claims. An estimated provision is accrued for employee health claims at September 30, 2007 and 2006, and includes an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Income Taxes

The Hospital is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Cameron Memorial Community Hospital, Inc.

Notes to Financial Statements September 30, 2007 and 2006

Reclassification

Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$539,012 and \$757,703 for 2007 and 2006, respectively.

Note 3: Net Patient Service Revenue and Estimated Third-Party Settlements

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. On February 1, 2003, the Hospital elected critical access hospital (CAH) designation. As a CAH, inpatient and outpatient services are paid on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with a final settlement determined after submission of annual cost reports by the Hospital and audit thereof by the Medicare fiscal intermediaries.

At September 30, 2007, the Hospital has recorded an estimated payable of \$1,226,000 to the Medicare program for settlement of the fiscal year 2007 and 2006 cost reports. Final settlement certifications have been received from the Medicare program on all periods previous to those years.

In fiscal years 2007 and 2006, the Hospital recognized a change in net patient service revenue of \$453,178 and \$(366,991), respectively, which was related to revised estimates and final settlements of the Medicare cost report for prior periods.

Medicaid. For Medicaid inpatient services, the Hospital is reimbursed under a prospectively determined rate-per-discharge. Reimbursement for Medicaid outpatient services is based on predetermined rates. The differences between standard charges and reimbursement from this program are recorded as contractual adjustments.

The Hospital is subject to retroactive settlement of certain provisions of the Medicaid program. At September 30, 2007, the Hospital has recorded an estimated receivable of \$466,000 associated with a notification received from the Medicaid program regarding disproportionate share hospital payments to be received for fiscal year 2005. During 2007, the Hospital recognized an increase in net patient service revenue of \$918,443 related to Medicaid disproportionate share payments related to fiscal years 2004 and 2005.

Approximately 31% and 29% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2007 and 2006, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Cameron Memorial Community Hospital, Inc.

Notes to Financial Statements September 30, 2007 and 2006

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

A summary of gross patient service revenue and contractual adjustments for the years ended September 30, 2007 and 2006, are as follows:

	<u>2007</u>	<u>2006</u>
Patient service revenue		
Routine services	\$ 3,584,853	\$ 2,993,084
Ancillary services		
Inpatient	5,742,390	5,747,026
Outpatient	47,633,169	42,501,458
Charity care	<u>(539,012)</u>	<u>(757,703)</u>
Total patient service revenue	56,421,400	50,483,865
Contractual adjustments	<u>(21,603,199)</u>	<u>(18,874,235)</u>
Net patient service revenue	<u>\$ 34,818,201</u>	<u>\$ 31,609,630</u>

Note 4: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at September 30, 2007 and 2006, was:

	<u>2007</u>	<u>2006</u>
Commercial insurance	18%	18%
Medicare	27	28
Medicaid	12	11
Self-pay	19	17
Blue Cross	12	14
Workers' compensation	2	2
Other	<u>10</u>	<u>10</u>
	<u>100%</u>	<u>100%</u>

Cameron Memorial Community Hospital, Inc.

Notes to Financial Statements September 30, 2007 and 2006

Note 5: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use include:

	<u>2007</u>	<u>2006</u>
Externally restricted by donors		
Cash	\$ <u>181,043</u>	\$ <u>172,886</u>
Internally designated for capital improvements		
Mutual funds	\$ <u>1,531,493</u>	\$ <u>496,100</u>

Other Investments

Other investments include:

	<u>2007</u>	<u>2006</u>
Mutual funds	\$ 11,124,091	\$ 5,847,314
Common stocks	3,303,725	5,210,441
U.S. Government agency securities	663,911	637,424
Corporate bonds	<u>—</u>	<u>1,253,071</u>
	15,091,727	12,948,250
Less long-term investments	<u>(15,032,345)</u>	<u>(12,792,835)</u>
Short-term investments	\$ <u>59,382</u>	\$ <u>155,415</u>

Total investment return is comprised of the following:

	<u>2007</u>	<u>2006</u>
Interest and dividend income (net of fees of \$125,432 and \$104,657)	\$ 548,676	\$ 377,035
Realized gains on sales of securities	1,634,131	150,249
Unrealized gains (losses) on other than trading securities	<u>(184,728)</u>	<u>542,317</u>
Total investment return	\$ <u>1,998,079</u>	\$ <u>1,069,601</u>

Cameron Memorial Community Hospital, Inc.

Notes to Financial Statements September 30, 2007 and 2006

Total investment return is reflected in the statements of operations and changes in net assets as follows:

	2007	2006
Unrestricted net assets		
Other nonoperating income	\$ 2,178,039	\$ 523,513
Change in unrealized gains (losses) on other than trading securities	(184,728)	542,317
Temporarily restricted net assets	<u>4,768</u>	<u>3,771</u>
	<u>\$ 1,998,079</u>	<u>\$ 1,069,601</u>

Certain investments in debt and marketable equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at September 30, 2007 and 2006, was \$1,546,924 and \$1,967,377, which is approximately 10% and 15%, respectively, of the Hospital's investment portfolio. These declines primarily resulted from recent increases in market interest rates and failure of certain investments to maintain consistent credit quality ratings (or meet projected earnings targets).

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

The following tables show the Hospital's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2007 and 2006.

The following is a description of the Hospital's investments for which market value is less than cost at September 30 for which a continuous unrealized loss position has been less than 12 months:

	2007		2006	
	Unrealized Loss	Aggregate Fair Value of Investments With Unrealized Losses	Unrealized Loss	Aggregate Fair Value of Investments With Unrealized Losses
Fixed income	\$ —	\$ —	\$ 1,489	\$ 173,669
Common stock	55,625	486,627	60,379	666,709
Mutual funds	<u>—</u>	<u>—</u>	<u>529</u>	<u>44,514</u>
	<u>\$ 55,625</u>	<u>\$ 486,627</u>	<u>\$ 62,397</u>	<u>\$ 884,892</u>

Cameron Memorial Community Hospital, Inc.

Notes to Financial Statements September 30, 2007 and 2006

The following is a description of the Hospital's investments for which market value is less than cost at September 30 for which a continuous unrealized loss position has been more than 12 months:

	2007		2006	
	Unrealized Loss	Aggregate Fair Value of Investments With Unrealized Losses	Unrealized Loss	Aggregate Fair Value of Investments With Unrealized Losses
Fixed income	\$ —	\$ —	\$ 9,762	\$ 603,814
Common stock	35,581	158,003	72,379	390,978
Mutual funds	<u>28,414</u>	<u>902,294</u>	<u>1,690</u>	<u>87,693</u>
	<u>\$ 63,995</u>	<u>\$ 1,060,297</u>	<u>\$ 83,831</u>	<u>\$ 1,082,485</u>

At September 30, 2007, the Hospital's investment portfolio consists of common stock investments in 181 companies, 12 fixed income securities and 13 mutual funds.

Thirty-three of the common stocks have been in a continuous unrealized loss position for less than twelve months. The market value of these investments is 90% of the cost, and the decline is not considered severe.

At September 30, 2007, there are eight common stocks and one mutual fund that have been in continuous unrealized loss position for twelve months or more. The market values of these investments are 82% and 97%, respectively of the cost, and the decline is not considered severe.

Note 6: Property and Equipment, Net

Property and equipment, net is recorded at cost and at September 30 consists of:

	2007	2006	Estimated Useful Life
Buildings and improvements	\$ 20,531,085	\$ 20,435,512	5-50 years
Equipment	14,322,037	12,783,355	3-20 years
Construction in progress	<u>15,572</u>	<u>—</u>	
	34,868,694	33,218,867	
Less accumulated depreciation and amortization	<u>(18,200,845)</u>	<u>(16,429,754)</u>	
	16,667,849	16,789,113	
Land	<u>1,043,373</u>	<u>1,043,373</u>	
Property and equipment, net	<u>\$ 17,711,222</u>	<u>\$ 17,832,486</u>	

Cameron Memorial Community Hospital, Inc.

Notes to Financial Statements September 30, 2007 and 2006

Note 7: Long-Term Debt

	2007	2006
Farmers Home Administration, United States Department of Agriculture promissory notes, dated April 28, 1997, 4.875% and 5.00%, payable in equal monthly installments of \$18,399 including interest, final payment due April 2037	\$ 3,385,235	\$ 3,438,487
Farmers Home Administration, United States Department of Agriculture promissory note of \$3,000,000, dated December 22, 1999, 4.75%, payable in equal monthly installments of \$13,980 including interest, final payment due December 2039	2,764,353	2,799,906
Farmers Home Administration, United States Department of Agriculture promissory note of \$3,800,000, dated July 30, 1975, 5.00%, payable in equal monthly installments of \$18,620 including interest, final payment due June 2015	1,401,148	1,549,011
Bank mortgage note of \$1,500,000, dated December 22, 1999, variable interest rate of 1.62% over 90-day LIBOR (6.87% and 7.06% at September 30, 2007 and 2006), payable in equal quarterly installments of \$18,750 plus interest, final payment due January 2020	956,250	1,031,250
Various capital lease obligations, imputed interest rates between 4.83% and 8.69%, expiring between 2009 and 2014, collateralized by leased equipment	3,852,506	2,915,874
	12,359,492	11,734,528
Less current maturities	(959,042)	(756,109)
	<u>\$ 11,400,450</u>	<u>\$ 10,978,419</u>

The Farmers Home Administration promissory notes are collateralized by a mortgage on substantially all Hospital property including Cameron Woods (the assisted living center), equipment, accounts receivable and revenue. The bank mortgage and term note are collateralized by a mortgage on Cameron Woods and certain investments held with such bank.

The fair value of the Farmers Home Administration promissory notes were \$7,244,657 and \$8,118,007 at September 30, 2007 and 2006, respectively. The carrying values of all other financial instruments approximate their fair values at September 30, 2007 and 2006.

In connection with the bank mortgage note, the Hospital is required, among other things, to maintain certain financial conditions, including:

1. Maintain a tangible net worth of not less than \$10,000,000 calculated at the end of each quarter.

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Notes to Financial Statements September 30, 2007 and 2006

2. Maintain a ratio of operating cash flow to total fixed charges of not less than 1.50 to 1.00 for the preceding 12-month period.
3. Not create, incur or assume indebtedness for borrowed money, including capital leases except as allowed as a permitted lien, sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of the Hospital's assets.

The Hospital has obtained a waiver of these covenants in regard to the capital lease obligation entered into in 2007.

Property and equipment include the following property under capital leases:

	<u>2007</u>	<u>2006</u>
Equipment	\$ 5,405,801	\$ 3,667,652
Less accumulated depreciation	<u>(1,799,828)</u>	<u>(774,328)</u>
	<u>\$ 3,605,973</u>	<u>\$ 2,893,324</u>

Aggregate annual maturities of long-term debt and payments on capital lease obligations at September 30, 2007, are:

	<u>Long-Term Debt (Excluding Capital Lease Obligations)</u>	<u>Capital Lease Obligations</u>
2008	\$ 325,886	\$ 897,539
2009	335,654	741,336
2010	348,868	721,945
2011	362,751	719,321
2012	376,465	716,147
Thereafter	<u>6,757,362</u>	<u>925,885</u>
	<u>\$ 8,506,986</u>	4,722,173
Less amount representing interest		<u>(869,667)</u>
Present value of future minimum lease payments		3,852,506
Less current maturities		<u>(633,156)</u>
Noncurrent portion		<u>\$ 3,219,350</u>

Note 8: Derivative Financial Instruments

As a strategy to maintain acceptable levels of exposure to the risk of interest rate fluctuations, the Hospital entered into an interest rate swap agreement for a portion of its floating rate debt. The agreement provides for the Hospital and another party to exchange the difference between a variable and fixed interest rate (7.98%) on a notional amount at the inception of the agreement of \$1,500,000 for a period of 20 years beginning January 2000. At September 30, 2007, the notional

Cameron Memorial Community Hospital, Inc.

Notes to Financial Statements

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amount was \$937,500. The difference between the variable interest rate and the fixed interest rate is settled quarterly and is reflected in interest expense. The fair value of the interest rate swap agreement at September 30, 2007 and 2006, is a liability of \$68,624 and \$73,599, respectively.

Management has designated the interest swap agreement as a cash flow hedging instrument and has determined the agreement meets the requirements of the short-cut method under the provisions of Statement of Financial Accounting Standards (SFAS) Nos. 133 and 138. The short-cut method allows the Hospital to assume no hedge ineffectiveness; therefore, the agreement is recorded at its fair value with subsequent changes in fair value excluded from the excess of revenue over expenses.

Note 9: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purpose:

	2007	2006
Health care services		
MRI housing addition	\$ 202,833	\$ 252,975
Home health care	<u>181,043</u>	<u>172,886</u>
	<u>\$ 383,876</u>	<u>\$ 425,861</u>

During 2007 and 2006, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of home health care in the amounts of \$55,619 and \$54,677, respectively.

Note 10: Operating Leases

Noncancellable operating leases for certain diagnostic equipment and computer software and hardware expire in various years through June 2011. Rental payments include minimum rentals, plus contingent rentals based on the number of procedures performed using the equipment.

Future minimum lease payments at September 30, 2007, were:

2008	\$ 259,542
2009	173,485
2010	42,840
2011	<u>42,840</u>
	<u>\$ 518,707</u>

Cameron Memorial Community Hospital, Inc.

Notes to Financial Statements September 30, 2007 and 2006

Rental expense for all operating leases consisted of:

	2007	2006
Minimum rentals	\$ 288,571	\$ 782,856
Contingent rentals	<u>15,853</u>	<u>350,689</u>
	<u>\$ 304,424</u>	<u>\$ 1,133,545</u>

The Hospital owns a medical office building and an oncology facility adjacent to the Hospital facility along with an assisted living facility. The medical office building and equipment are included in property and equipment, with a cost of \$1,563,677 and accumulated depreciation of \$929,893 and \$873,959 at September 30, 2007 and 2006, respectively. The oncology facility is included in property and equipment with a cost of \$1,297,182 and accumulated depreciation of \$216,524 and \$183,309 at September 30, 2007 and 2006, respectively. The assisted living facility is also included in property and equipment, with a cost of \$4,402,303 and accumulated depreciation of \$827,960 and \$717,078 at September 30, 2007 and 2006, respectively.

The Hospital leases space in the medical office building to physicians and tenants under various operating leases, with terms of three years with three-year renewal options. The Hospital also operates an assisted living facility which leases apartments under cancellable month-to-month lease terms. Rental income under the term of these leases is included in other revenue and was \$1,332,155 and \$1,327,280 in 2007 and 2006, respectively.

The Hospital cancelled an agreement in August 2006 by mutual consent with an unrelated health system to lease the oncology facility. This agreement had been in effect until the date of cancellation.

Future minimum lease payments to be received at September 30, 2007, were:

2008	\$ 125,182
2009	100,308
2010	<u>58,968</u>
Future minimum lease receipts	<u>\$ 284,458</u>

Note 11: Pension Plan

The Hospital has a defined-contribution pension plan covering substantially all employees. The Board of Directors annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense was \$424,037 and \$394,715 for 2007 and 2006, respectively.

Note 12: Medical Malpractice

The Hospital participates in the Indiana Medical Malpractice Act which limits the maximum recovery for qualified medical malpractice claims to \$1,250,000 per occurrence, the first \$250,000

Cameron Memorial Community Hospital, Inc.

Notes to Financial Statements

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of which would be the responsibility of the Hospital, with the balance paid by the State of Indiana Patient Compensation Fund.

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional services occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 13: Self-Insured Employee Health Claims

The Hospital is self-insured for the first \$85,000 per occurrence and \$3,247,000 in aggregate of employee health claims. The Hospital purchases commercial insurance coverage above the self-insurance limits. The liability for employee health claims represents management's estimate of all incurred and reported claims plus estimated incurred but not reported claims based on the Hospital's reporting system. The carrying amount of the liability was approximately \$542,477 and \$600,000 as of September 30, 2007 and 2006, respectively. The liability is included in accrued expenses and other liabilities in the accompanying balance sheets. It is reasonably possible that the Hospital's estimate of losses will change by a material amount in the near term.

Note 14: Functional Expenses

The Hospital provides general health care services to residents within its geographic location including pediatric care, cardiac intensive care and outpatient surgery. Expenses related to providing these services are as follows:

	2007	2006
Health care services	\$ 30,734,732	\$ 27,576,955
General and administrative	<u>5,448,660</u>	<u>4,913,293</u>
	<u>\$ 36,183,392</u>	<u>\$ 32,490,248</u>

Note 15: Related Party Transactions

Cameron Memorial Community Hospital, Inc. and Cameron Hospital Foundation, Inc. (Foundation) are related parties that are not financially interrelated organizations. The Foundation was established to solicit contributions from the general public and to help support community and health care related educational events. In the absence of donor restrictions, funds are distributed as determined by the Foundation's Board of Directors, which are separately appointed from that of the Hospital. The Hospital provides accounting and financial management services to the Foundation and bills the Foundation \$16,000 annually.

Cameron Memorial Community Hospital, Inc.

Notes to Financial Statements

September 30, 2007 and 2006

The Foundation contributed \$35,588 and \$45,263 to the Hospital in fiscal years 2007 and 2006, respectively. There were no significant intercompany receivables or payables at September 30, 2007 and 2006.

Note 16: Investments in Equity Investee and Long-Term Debt Guarantee

The Hospital has a 40% interest in Tri-State Medical Imaging Center LLC (Tri-State), a limited liability company located in Angola, Indiana. The joint venture was formed to operate a imaging center. Tri-State had outstanding \$1,138,939 of debt used for the purchase of imaging equipment at September 30, 2007. The Hospital has guaranteed 40% of the debt service, which is to be paid from Tri-State operating income. Since the debt is payable from net revenue and is collateralized by the related imaging equipment, no liability is reflected on the Hospital's financial statements for the guarantee amount.

Note 17: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 3.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Note 12.

Employee Health Insurance

Estimates related to the accrual for self-insured employee health insurance are discussed in Notes 1 and 13.

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Supplementary Information

Cameron Memorial Community Hospital, Inc.

Schedules of Other Revenue Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Rental income	\$ 1,332,155	\$ 1,327,280
Day care	126,335	105,492
Cafeteria	86,795	82,472
Meals on wheels	8,651	9,884
Vending machines	45,768	36,471
Community health	5,764	16,737
Miscellaneous	<u>13,439</u>	<u>4,042</u>
	<u>\$ 1,618,907</u>	<u>\$ 1,582,378</u>